



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

<http://finance.senate.gov>

For Immediate Release

Wednesday, November 5, 2003

Contact: Laura Hayes

202-224-4515

Passage of Military Tax Relief Marks Significant Legislative Achievement *Original Baucus-Grassley Comprehensive Military Tax Relief Bill is Headed to President's Desk*

(WASHINGTON, D.C.) U.S. Senator Max Baucus, Ranking Member of the Senate Finance Committee and original author of the Armed Forces Tax Fairness Act, today hailed the unanimous House passage of the military tax relief bill, which will allow the bill to now move to the President's desk. The bill will increase payments to families when a member of the military dies in the line of duty, will eliminate taxes on military child care benefits, and will assist National Guard and Reservists with costs relating to service, among other provisions.

Baucus has been a long-time champion of providing the military with tax relief, having first introduced the bill in 2002 with Finance Committee Chairman Grassley. Baucus has continuously pressed for final passage of the bill and has worked to attach it to a number of various pieces of legislation. Most recently, Baucus included the bill within the major tax cut legislation that passed in May, although the military provisions were stripped before final passage.

"I have worked doggedly with Chairman Grassley and numerous other Members to keep up the pressure and get our military legislation passed once and for all. Today we finally achieved victory," Baucus said. "We've reached an important milestone for all of our brave military personnel -- they will finally receive the tax relief and assistance they deserve."

The Armed Forces Tax Fairness Act of 2003 last passed the Senate as a stand alone bill in March of this year by a vote of 97 to 0. Last week, the House passed a watered down version of the Senate military tax relief bill. As a result, the Senate passed an amendment to strengthen the House bill and reinserted the full provisions of the original Senate bill into the House legislation.

Today, the House passed all of the provisions included in the original Senate Armed Forces Tax Fairness Act. The only difference in the legislation is how the bill is offset. Formerly, the bill was financed through an increased collection of taxes from U.S. expatriates and IRS user fees. The bill will now be paid for through customs user fees. The bill has also been re-titled as the Military Family Tax Relief Act.

"We've passed this bill in honor of each and every member of the military who is serving far from home, away from their families. I believe this legislation will help ease some tax related worries, so our military can spend their time fighting for our country, not fighting the tax code. I look forward to seeing the bill signed into law shortly," Baucus said.

Provisions of the Military Family Tax Relief Act include:

- A. **Increase in Military Death Gratuity Payments.** Under current law, the families of soldiers killed in combat receive a death gratuity payment of \$6,000. The bill would increase this amount to \$12,000.
- B. **Exclusion of Military Death Gratuity Payments.** Under current law, death gratuity benefits are only excludable from income up to the amount payable as of September 9, 1986 (i.e., \$3,000). The death gratuity benefit was increased to \$6,000 in 1991 but the exclusion from income for such benefits has not been adjusted. This bill would increase the amount to \$12,000 and provide exclusion for all death gratuity payments.
- C. **Exclusion of Gain from the Sale of a Principal Residence by Military and Foreign Service Personnel.** In 1997, Congress amended the taxation of capital gains from the sale of a principal residence. Under those rules, up to \$250,000 (\$500,000 per married couple) may be excluded on the sale of a principal residence if the individual has lived in the house for at least two of the previous five years. Although Treasury Regulations provide relief in the event a principal residence is sold for work-related reasons prior to the time at which the two-year requirement is met, no relief has been provided for military and foreign service personnel who are required to move either within the U.S. or abroad in the course of active duty. The proposal would permit military and foreign service personnel to make an election to suspend for a maximum of ten years the running of the two and five year periods while away on active duty assignments.
- D. **Exclusion of Amounts Received Under Military Housing Assistance Program.** The Department of Defense makes payments to members of the Armed Services to offset diminution in housing values due to military base realignment or closure. For example, if a house near a base was worth \$180,000 prior to a base closure and \$100,000 after a base closure, DOD may provide the owner with a payment to offset most (but not all) of the \$80,000 diminution in value. Under current law, those amounts are taxable as compensation. The proposal would provide that such payments are not includible into income.
- E. **Expand Combat Zone Filing Rules To Include Contingency Operations.** Under current law, military personnel in a combat zone receive an extended period of time for filing federal income tax returns. This exception, however, has not been extended to contingency operations. The proposal would provide similar filing extensions to military personnel assigned to contingency operations designated by the Secretary of Defense.
- F. **Above-The Line-Deduction For Overnight Travel Expenses of National Guard and Reserve Members.** Reservists who travel periodically (typically one weekend per month and two weeks in the summer) for reserve duty incur significant travel expenses, some of which are not reimbursed by the military. Under current law, those “unreimbursed business expenses” may be deducted as itemized deductions on Schedule A to the extent those expenses exceed 2% of adjusted gross income. Thus, reservists who do not itemize (like 75% of all taxpayers) may not deduct any portion of those expenses, and reservists

who itemize may deduct those expenses only in limited form. The proposal would provide an above-the-line deduction for overnight travel costs incurred more than 100 miles from the taxpayer's home including meals, transportation and lodging up to the amount allowable as per diem allowances applicable to the locale by the DOD for all reservists and members of the National Guard.

- G. Expansion of Membership For Veterans' Organizations.** Qualified veterans' organizations under section 501(c)(19) of the tax code are treated as tax-exempt organizations under the Internal Revenue Code. As such, contributions to qualified veterans' organization are deductible. To become a qualified veterans' organization, (1) 75% of the members must be current or former active military personnel and (2) "substantially all" of the members must be either current or former active military personnel or widows/widowers of former active military personnel. The proposal would permit lineal descendants and ancestors of current or former active military personnel to qualify for the "substantially all" test.
- H. Clarification of Treatment of Child Care Subsidies.** Under current law, employees generally may exclude from taxable income up to \$5,000 of employer-provided childcare expenses. The military provides extensive childcare benefits to its employees. A separate provision in the Internal Revenue Code excludes from income benefits provided to members of the uniformed services. However, it is unclear whether childcare benefits were intended to be included in that provision. The proposal would clarify that childcare benefits provided to military personnel would be excludible from income and is not expected to have a revenue effect.
- I. Treatment of Service Academy Appointments as Scholarships for Purposes of Section 529 and Section 530 Education Programs.** The proposal permits penalty-free withdrawals from Coverdell education savings accounts and qualified tuition programs made on account of the attendance of the account holder or beneficiary at the United States Military Academy, the United States Naval Academy, the United States Air Force Academy, the United States Coast Guard Academy, or the United States Merchant Marine Academy. The amount of funds that can be withdrawn penalty-free is limited to the costs of advanced education as defined in Title 10, section 2005(e)(3) of the United States Code (as in effect on the date of the enactment of the proposal) at such Academies.
- J. Suspension of the Tax-Exempt Status of Terrorist Organizations.** The proposal suspends the tax-exempt status of an organization that is exempt from tax under section 501(a) for any period during which the organization is designated or identified as a terrorist organization. The proposal also makes such an organization ineligible to apply for tax exemption under section 501(a). The period of suspension runs from the date the organization is first designated or identified to the date when all designations or identifications with respect to the organization have been rescinded pursuant to the law or Executive order under which the designation or identification was made. The proposal directs the IRS to update the listings of tax-exempt organizations to take account of organizations that have had their exemption suspended and publish for taxpayers the non-deductibility of contributions to such organizations during the period of suspension.

- K. **Assistance for Families of Space Shuttle Columbia Heroes.** This amendment expands the class of those eligible for income tax relief to include astronauts who die in the line of duty, effective January 1, 2003. This amendment will afford astronauts killed in the line of duty income tax relief, death benefit relief, and estate tax relief.
- L. **Offset: Custom User Fees.** The bill would be fully paid for by extending custom user fees through March 1, 2005.

###